ies Briefing

Institute for Employment Studies

Labour Market Statistics, May 2023

16 May 2023

This briefing note sets out analysis of the Labour Market Statistics published this morning. The analysis mainly draws on **Labour Force Survey (LFS)** data, which is the main household survey that collects official figures on employment, unemployment and economic inactivity and covers the period up to March 2023 (the most recent quarter being January 2023 to March 2023). The briefing also includes findings from the **ONS Vacancy Survey**, which collects employer data on open vacancies; and from the **Monthly Wages and Salaries Survey**, which collects pay data from businesses in order to estimate Average Weekly Earnings (AWE). The Vacancy Survey includes data up to April 2023, and the Wages and Salaries Survey to March 2023.

In addition, this month sees publication of quarterly data on employment for disabled people and ethnic minority groups, as well as data on labour market 'flows' from the Longitudinal LFS, all of which are also covered below.

Summary

Another month, another record set for the number of people out of work due to long-term health conditions. At 2.55 million people, the number off work due to ill health has risen by 440 thousand since the start of the pandemic and by 85 thousand in the last quarter alone. At the same time, economic inactivity for every other reason is now falling – with particularly large falls in student numbers and those off for 'other' reasons.

This means that despite rises in long-term ill health, economic inactivity overall is down on the quarter and on the year; with this translating into rises in both employment and unemployment (as those previously economically inactive start to look for work).

Vacancies are also down on the quarter, but remain above a million and may start to level off in the next month or two. Vacancies remain strongest in public services, professional services and administrative roles but have fallen further in hospitality and retail. This may point to fewer 'entry level' roles for those (re)joining the labour market, and potential risks around mismatches in people's skills or where they live.

Earnings growth remains strong, at around 7%, with pay growth high in both the public and private sectors. Continued high inflation, however, means that real pay growth

remains negative. We may see that change in the next few months if inflation falls back to the extent that some analysts are predicting.

Overall, our view is that today's figures show that labour demand is continuing to hold up. However, with higher worklessness due to long-term ill health, rising long-term unemployment and widening employment 'gaps' for disabled people, older people and young people outside of full-time education, it is hard to escape the conclusion that those who are more disadvantaged in the labour market are being increasingly left behind. This in turn is holding back our economic recovery and undermining living standards.

We can and must do more to address this.

Employment continues to improve, but there may be some signs of weakening

Overall, today's figures continue the trend of recent months that has seen economic inactivity falling back with both employment and unemployment edging up. At 21.0%, economic inactivity among 16-64 year olds is down by 0.4 percentage points on the previous quarter and is at its lowest since late 2020. The employment rate is up by 0.3 points on the quarter to 75.9% – almost back to where it was in the mid 2020 – while unemployment is still just below 4% (at 3.9%) although it is continuing to creep up. (Analysis at the end of this briefing sets out that so far, higher unemployment appears to be being driven mainly by flows from economic inactivity rather than flows from work.)

Figure 1 below sets out these trends. The yellow lines show the single-month estimates, which combine to form the headline quarterly average. We noted in last month's briefing that very strong data for the single month of February, combined with weak data for December (which has now dropped out of the quarterly average) meant that we would invariably get a strong quarterly estimate for March. This has been borne out, but it should be noted that the single-month figures for March are pretty weak again so next month's average figures may be less positive (especially on unemployment).

These monthly figures are very volatile overall, but they may suggest that we might start to see the labour market level off over the next few months – perhaps with slightly weaker employment growth, lower economic inactivity, and slightly higher unemployment. There are signs of this too in the more timely HMRC data on payrolled employees, which have seen employee growth start to level off and a 'flash' estimate of a fall in April. These figures can be subject to significant revision, and can also reflect changes in classification between employee and self-employed roles, but if this is confirmed next month then it would be the first fall in payrolled employees in over two years.

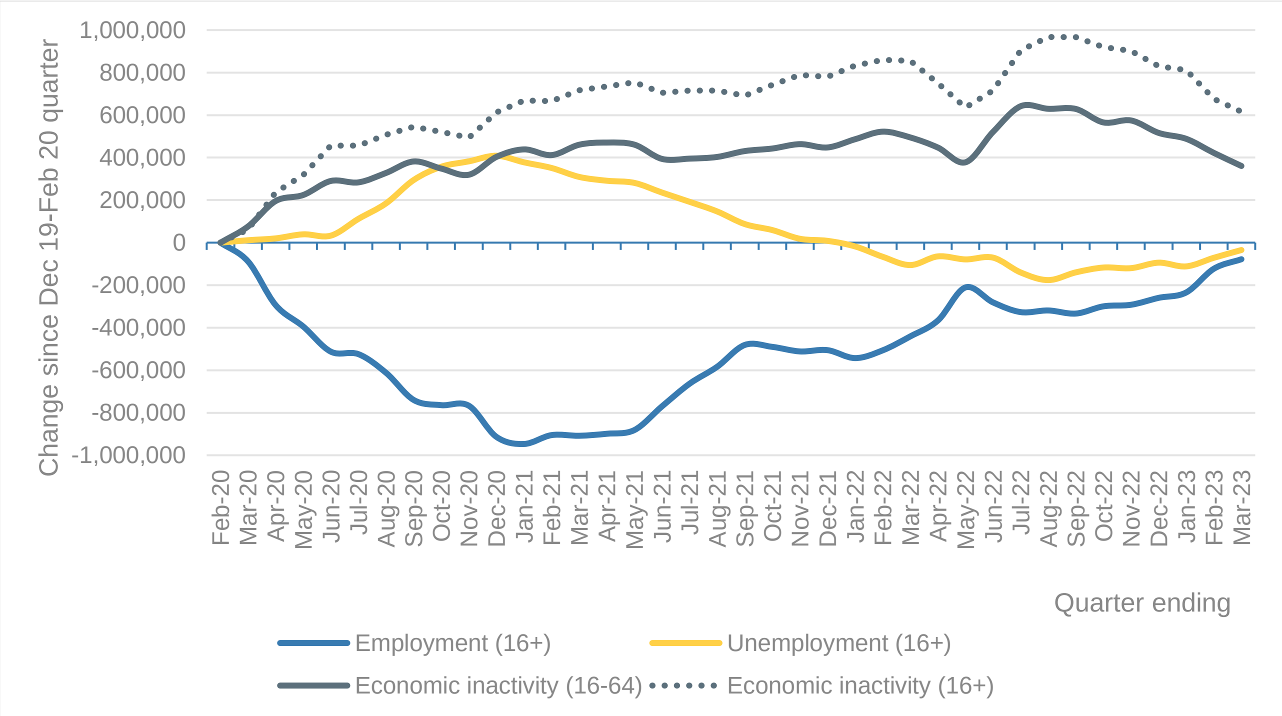
Figure 1: Employment, unemployment and economic inactivity rates (16-64) – quarterly average with single-month estimates

Source: Labour Force Survey

Figure 2 below then sets out the changes in levels of employment, unemployment and economic inactivity since the start of the Covid-19 pandemic. This illustrates that while the overall picture has been improving since last summer, employment is still lower than pre-pandemic levels (by 80 thousand) while economic inactivity remains significantly higher (by 360 thousand for those aged 16-64, and by 615 thousand when people aged 65 and over are included).

The reason why economic inactivity has risen by more than employment has fallen is because the population has continued to grow over the last three years, and particularly for older people. However while before the pandemic, population growth had supported higher employment growth, since the pandemic it has mainly translated into higher worklessness. As we have set out before, the net result of these changes is that the labour force is smaller by around one million workers than it would have been had the pre-pandemic trend (of both population and employment growth) had continued.

Figure 2: Change in levels of employment, unemployment and economic inactivity since start of Covid-19 pandemic (December 2019-February 2020 quarter)



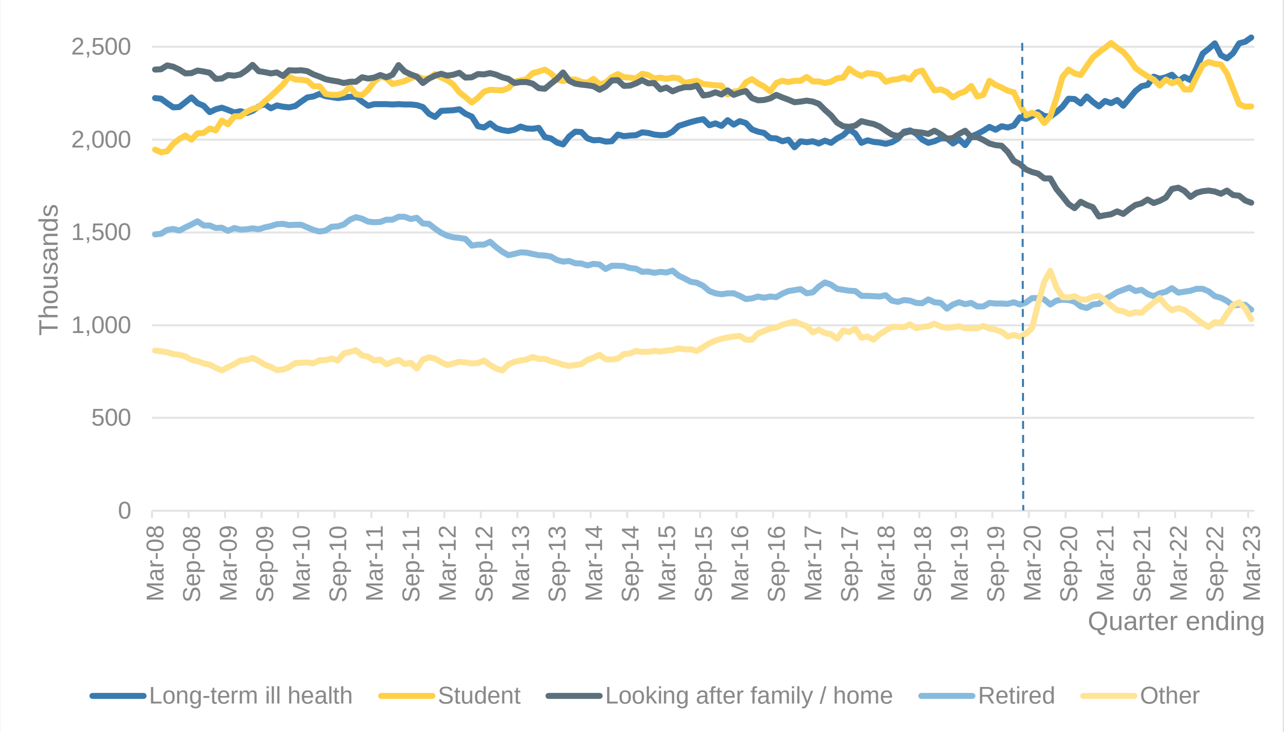
Source: Labour Force Survey

Yet again, economic inactivity due to long-term ill health hits a new record, while all other reasons fall

By far the most concerning figure in today's data, however, is a further rise in economic inactivity due to long-term ill health. This figure has risen for nine of the last ten monthly releases, and is up by 85 thousand in the last quarter alone, to 2.55 million people. This is now comfortably the highest figure on record and shows no signs of falling. At the same time, economic inactivity for literally every other category has fallen over the last quarter.

Figure 3 below sets these trends out for the five main reasons given, with long-term ill health shown in blue. Among other reason given, falls in the number of economically inactive students and in the number of people economically inactive for 'other' reasons (for example not needing to work, or waiting for a job to start) are driving the large overall fall in economic inactivity – with students down by 95 thousand on the quarter, and 'other' reasons down by 75 thousand).

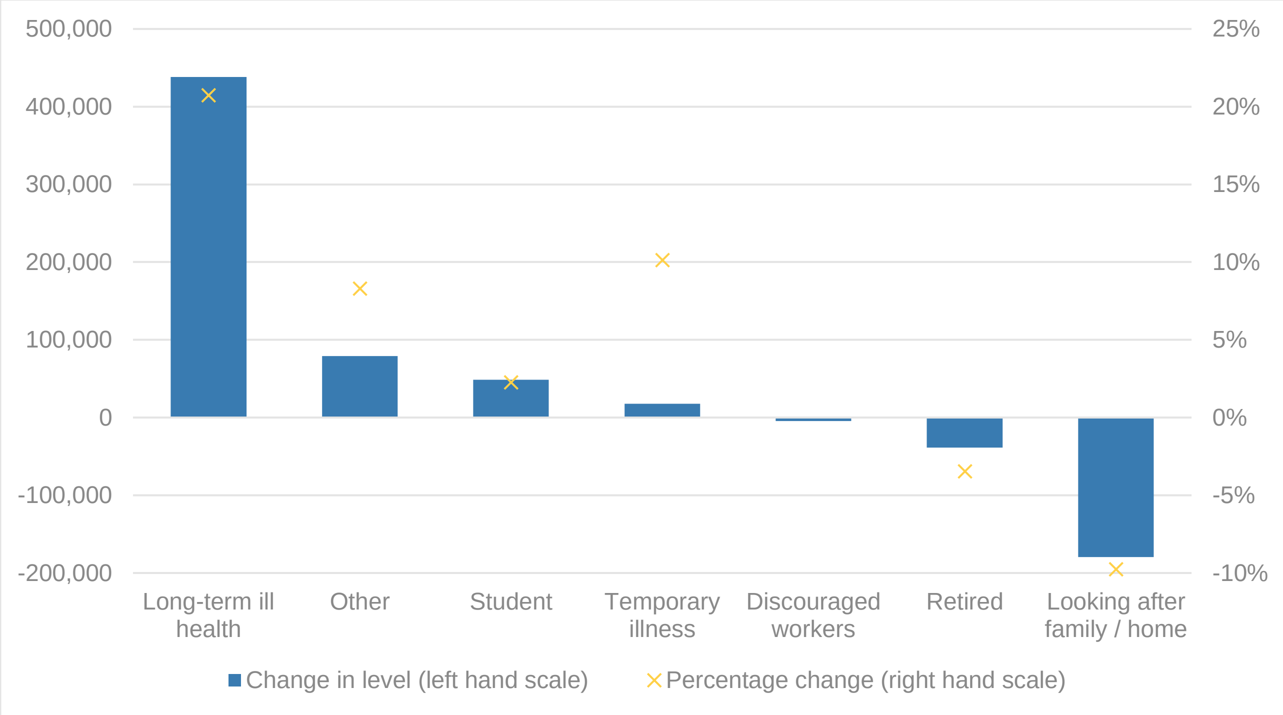
Figure 3: Levels of economic inactivity for the five main reasons given, 2002-present



Source: Labour Force Survey

Compared with pre-pandemic levels (Figure 4), economic inactivity due to long-term ill health is now up by 440 thousand (or 21%) while levels of economic inactivity for every other reason given are now close to or below where they were before the pandemic began. ONS analysis shows that these increases in worklessness due to ill health are being driven by rises in the number of people out of work with mental ill health, musculoskeletal conditions, and ‘other’ reasons which likely include the effects of Long Covid. This is happening across age groups, but with larger numerical rises among older people because older people are more likely to have long-term health conditions than younger people. Our analysis has also shown that virtually all of the growth (to mid 2022) could be accounted for by people who were already out of work before the pandemic began, so appears to be less explained by people with long-term health conditions leaving work than by those with long-term conditions being unable to get (back) in.

Figure 4: Change in economic inactivity by main reason, Dec 19-Feb 20 to Jan-Mar 23



Source: Labour Force Survey

There are more disabled people, but high economic inactivity and weak employment means wide ‘gaps’

Today also sees publication of quarterly data on employment for disabled and non-disabled people, which can also help to shed some light on what is driving higher economic inactivity[1]. This shows that there has been a significant growth in the number of people reporting having long-term conditions that limit their day-to-day activities, and particularly since 2020. However, while pre-2020 employment rose overall while economic inactivity was broadly flat, since 2020 both employment and economic inactivity have been rising.

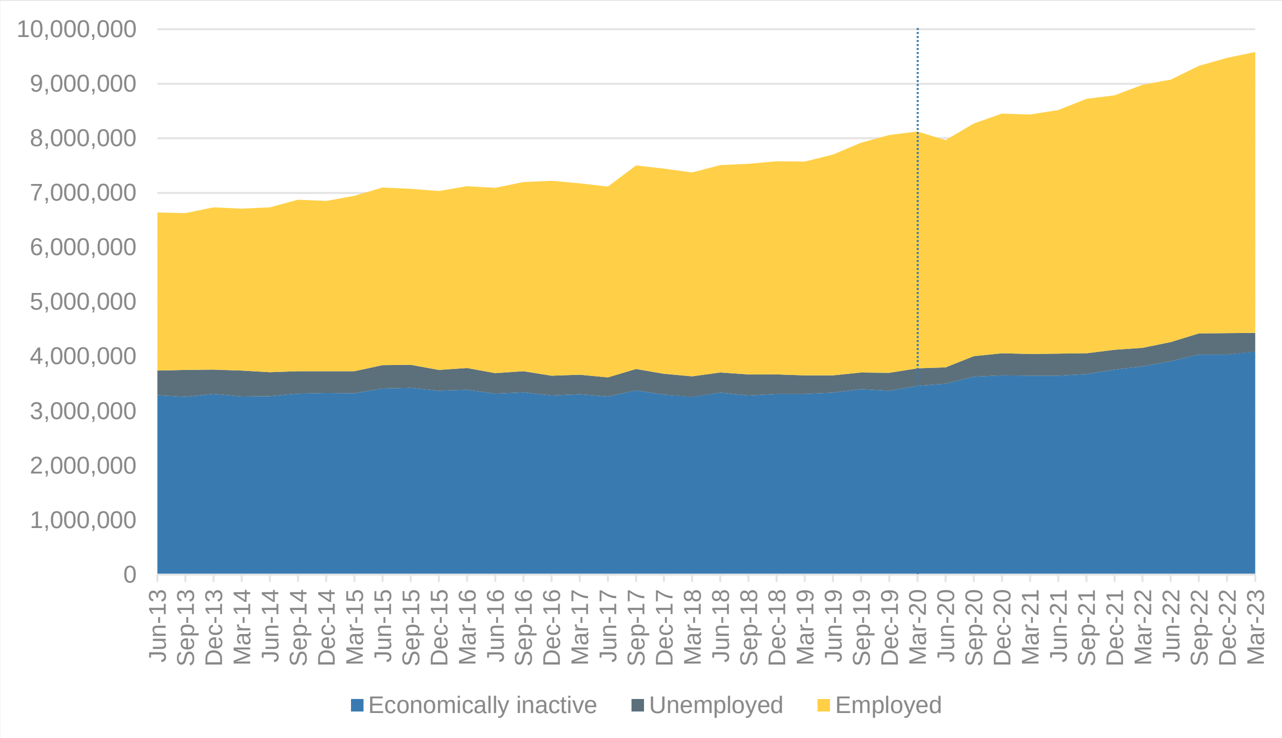
Figure 5 below sets this out in more detail. Overall, there are now 9.6 million disabled people aged 16-64 (around 23% of the population), with this figure rising by around 1.5 million over the last three years compared with a rise of just under a million over the previous three years. However while the number of economically inactive disabled people was broadly unchanged at around 3.3 million before 2020, since then it has risen to 4.1

[1] The precise definition of disability used in this analysis is people who report a physical or mental health condition expected to last twelve months or more and that reduces their ability to carry out day-to-day activities.

million. Employment has also grown, but at a similar rate to pre-pandemic (at around 200-250 thousand a year).

Overall, then, this may provide more evidence that people acquiring health conditions in work are no more or less likely to be able to stay in work, but that those out of work are finding it harder to get into work (and/ or may be seeing their health deteriorate further).

Figure 5: Employment, unemployment and economic inactivity levels for disabled people



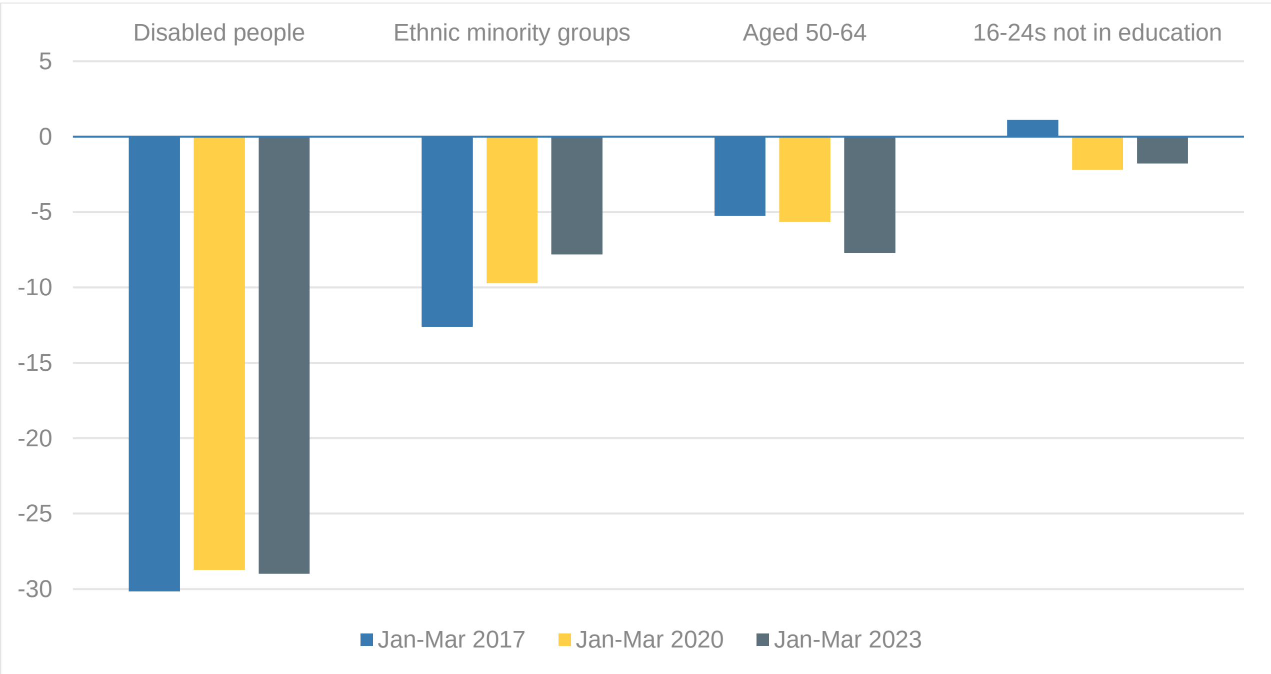
Source: Labour Force Survey

This trend of rising economic inactivity as well as rising employment means that the growth in employment rates for disabled people has slowed considerably since 2020. At the same time, employment for non-disabled people has continued to edge up, meaning that a longer-running trend of a narrowing in the 'gap' between employment rates of disabled and non-disabled people has halted, and if anything appears to be going into reverse. Compared with a year ago, the employment rate for disabled people is unchanged at 53.7% while for non-disabled people it has risen from 81.9% to 82.7%. This means that disabled people are more than two-and-a-half times more likely to be out of work than non-disabled people, and the employment rate 'gap' has widened to 29 percentage points. Disabled people now make up nearly half (47%) of all of those who are economically inactive.

Data on employment for ethnic minority groups is also published today, which shows that employment overall for ethnic minority groups has continued to rise (up by 1.1 percentage points on a year ago), while employment for white people has risen by 0.2 percentage points. Within this however, there is significant variation between groups – with for example increases in employment for Indian people (whose employment rate is on average higher than for white people) and Bangladeshi people (whose employment rate is significantly lower); and a decrease in employment for Pakistani people while employment for black people is unchanged on a year ago. Overall, on average, people from ethnic minority groups are nearly eight percentage points less likely to be in work than white people.

Figure 6 below sets out employment gaps for disabled people, ethnic minority groups, people aged 50-64, and young people outside of full-time education. The graph shows data for the most recent quarter, the same time three years ago (i.e. the start of the pandemic) and the same time three years before that. This emphasises the sheer size of the employment gap for disabled people, but that gaps exist for all four groups – and in the case of older people and young people, these gaps have risen since 2017.

Figure 6: Employment rate 'gaps' for disabled people, ethnic minority groups, those aged 50-64, and young people not in full time education; January-March 2017, 2020 and 2023



Source: IES analysis of Labour Force Survey. Gaps are calculated as the percentage point difference in employment rates between the rate for the disadvantaged group and the rate for the overall 16-64 population excluding that group.

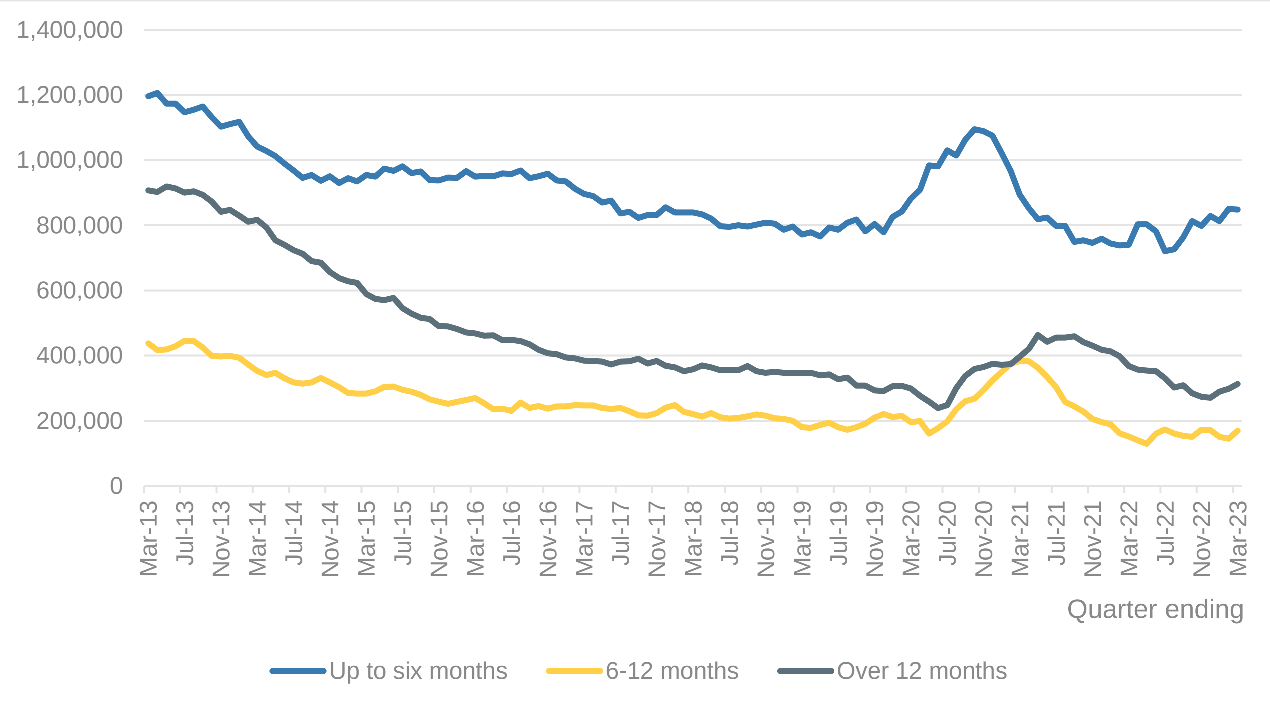
Short-term unemployment and long-term unemployment are both continuing to rise

As reported for the last couple of months, the fairly small growth that we are seeing in unemployment so far is explained by increases in both short and long durations. This is shown in Figure 7 below – with unemployment of less than six months and more than twelve months rising recently, while unemployment of 6-12 months is broadly flat.

Higher short-term unemployment appears to be most likely a result of more people who were previously economically inactive (re)entering the labour market, and particularly students (this is explored in a little more detail at the end of the briefing). This may be transient and could work through as people start to fill jobs. However, if we start to see employment demand weaken – and/ or if there are mismatches between the people who want jobs and the jobs that are being advertised – then we may start to see this feed through into higher unemployment in the 6-12 month group (and there are perhaps signs of a very slight up-tick in the most recent data).

Of more concern though is the continued rise in long-term unemployment, which now looks like it could be the start of a trend. It is not clear why this should be happening given the public policy focus on tackling unemployment, and the continued high level of vacancies (discussed below). However, given that many of these vacancies are in relatively higher skilled work it could reflect mismatches in skills or locations. Nonetheless, long-term unemployment remains low by historic standards and there is little sign that people are moving from longer-term unemployment into economic inactivity.

Figure 7: Unemployment by duration



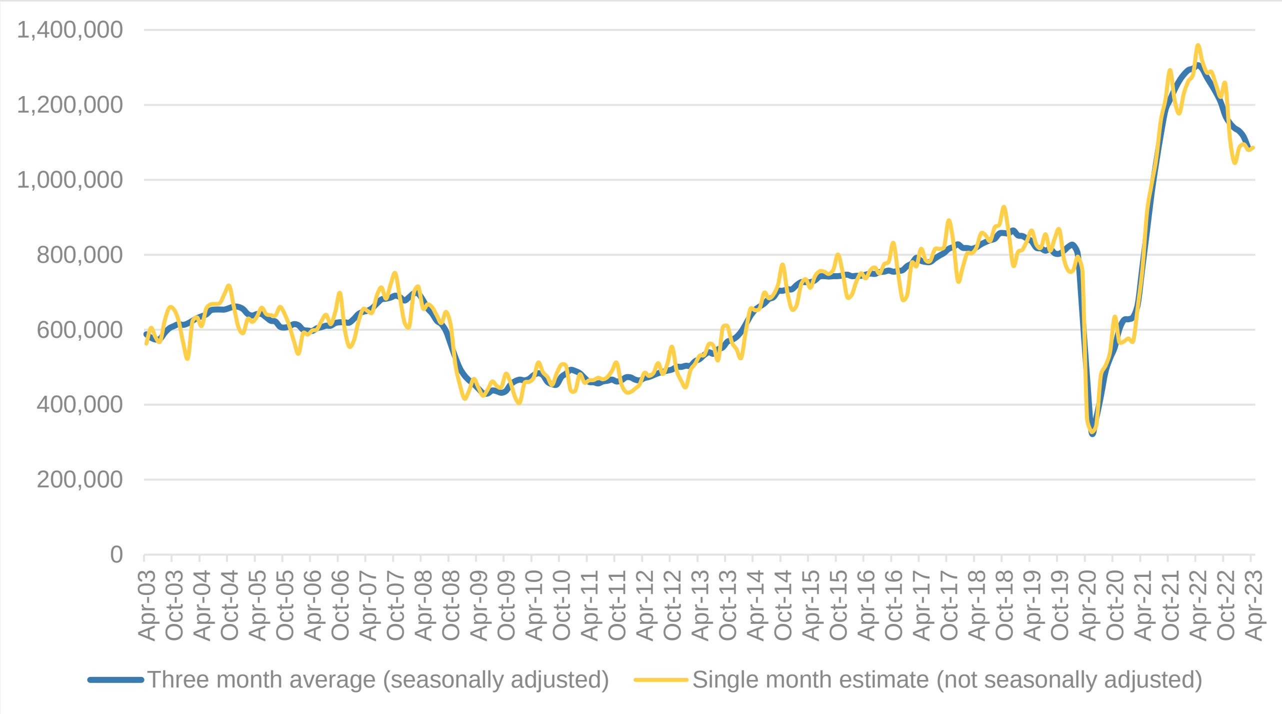
Source: Labour Force Survey

Vacancies fall again, but remain high particularly in professions, administration and the public sector

Last month we said that there were signs that vacancies may start to level off. In fact pretty much the opposite has happened today, with a quarterly fall of 55 thousand to 1.08 million (the largest quarterly fall since the turn of the year). Nonetheless the more timely (but not seasonally adjusted) monthly data does appear to be flattening out at around 1.1

million, so we may yet see vacancy numbers start to stabilise in the next few months. This is shown in Figure 8 below. Combined with recent increases in unemployment, this means that there are signs of a bit more slack in the labour market – with now 1.2 jobseekers for each vacancy, compared with 1:1 ratio throughout 2022.

Figure 8: Vacancies – quarterly and single-month estimates



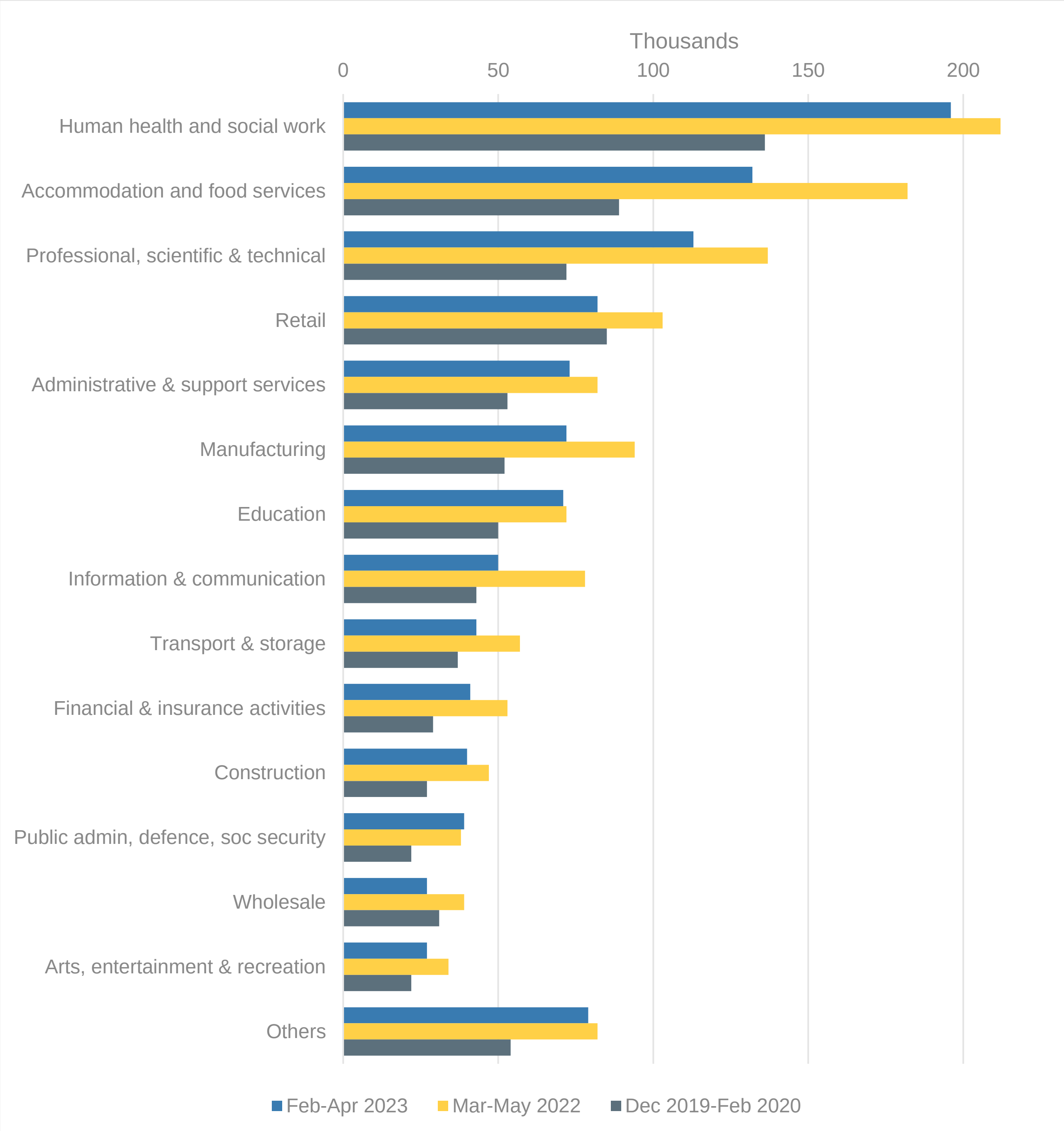
Source: ONS Vacancy Survey

Figure 9 below sets out vacancy levels by industry – showing the most recent figures in blue; the figures when vacancies were at their peak in yellow; and the eve of the pandemic in black. This shows a similar story to recent months, with falls being driven in particular by fewer hospitality jobs (the 'accommodation and food services' group); information and communication; and manufacturing. There are also large proportionate falls in retail vacancies, which are now below lower than they were before the pandemic.

Vacancies in public services (health, education, public administration) remain at around their peaks however; while vacancies are also high in administrative and support roles and in professional jobs (a category that includes legal, architectural, engineering, scientific and consultancy jobs).

Overall, then, there are signs that demand may be weakening in some lower skilled industries (which often provide entry-level opportunities for those out of work) and in some skilled trades; but holding up in some higher skilled jobs and in particular in service industries (where there may be greater risks of mismatches in terms of the skills and locations of those out of work).

Figure 9: Vacancies by industry, pre-pandemic, post-pandemic peak (Mar-May 2022) and most recent quarter (Feb-Apr 2023)

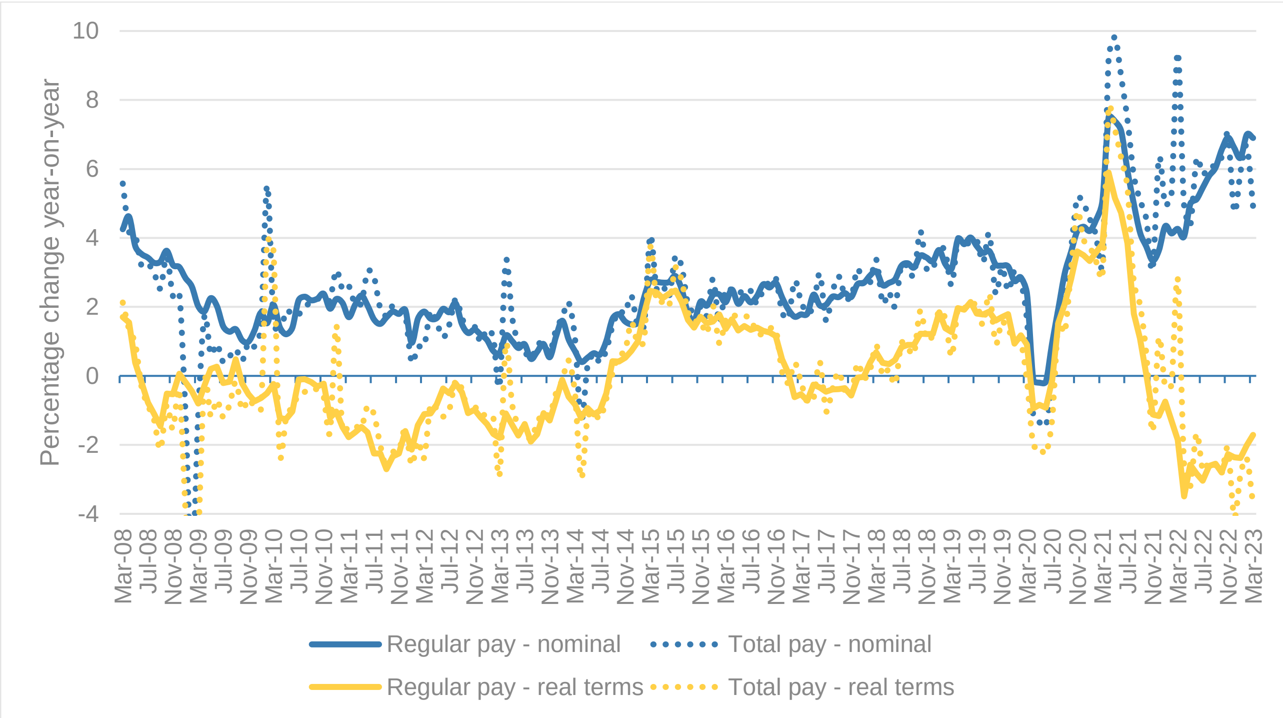


Source: ONS Vacancy Survey

Nominal pay growth remains very strong, but real pay is continuing to fall

Today's pay data reported continued strong growth in year-on-year pay, up by 6.9% for regular pay compared with March 2022. Continued high inflation means that 'real' pay growth remains negative (at -1.7% compared with March 2022) – although with inflation creeping down and nominal pay growth holding up, this gap has narrowed slightly in recent months. This is shown in Figure 10 below (with the solid lines showing regular pay and the dotted lines showing total pay including bonuses and arrears). As we noted last month, if we start to see more dramatic improvements in inflation in the next couple of months then we may well see real pay growth turning positive again over the summer.

Figure 10: Year-on-year change in regular and total pay – nominal terms and adjusted for inflation (real terms)

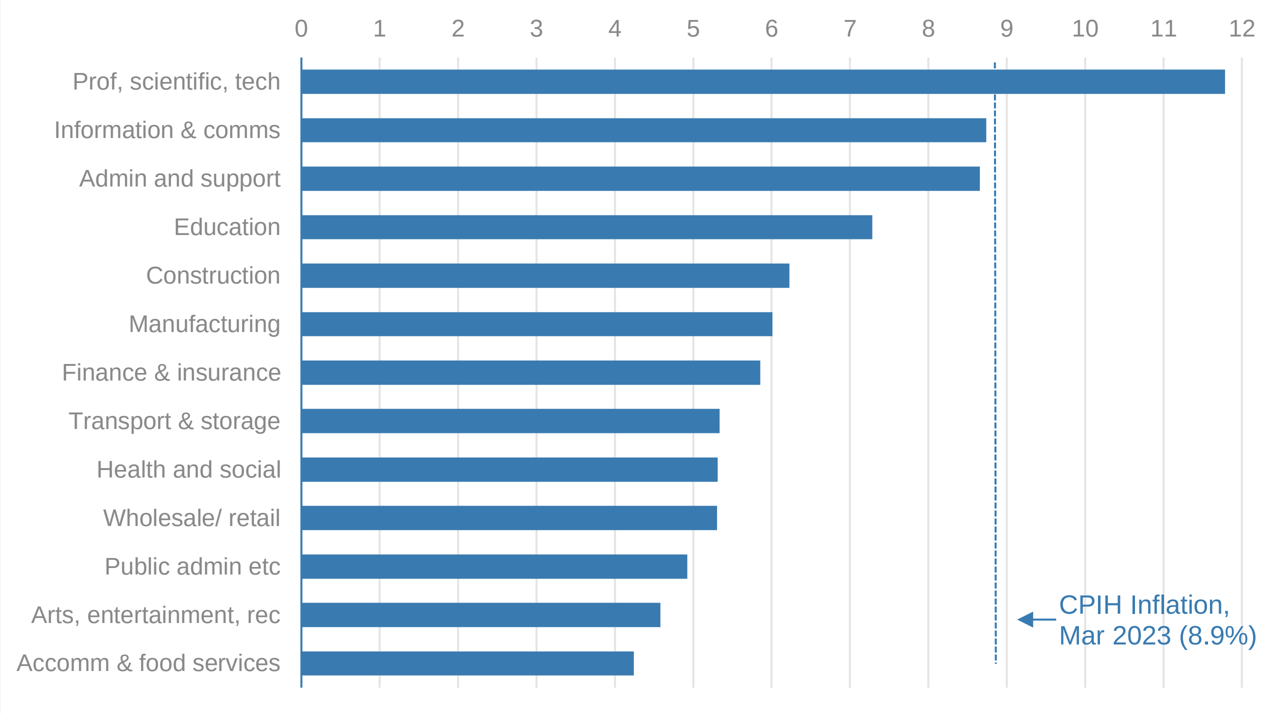


Source: ONS Monthly Wages and Salaries Survey. Regular pay excludes bonuses and arrears; measure shown is year-on-year change in single month estimate.

The reasons that pay growth is holding up is likely linked with the wider picture on vacancies and demand set out earlier in the briefing. As Figure 11 below shows, nominal pay growth is particularly strong in private sector services (particularly 'professional' jobs) and weaker in hospitality, retail and the arts. Public sector pay is also faring better now – up by on average 5.5% on the year.

Note that these pay growth figures are changes in *average pay in each industry* rather than *average pay rises for each worker*, so they reflect changes both in the composition of the workforce as well as the impact of higher pay settlements. So in education for example, high average pay growth may well reflect schools employing fewer people in lower paid roles compared with the same time last year.

Figure 11: Year-on-year change in regular pay by industry, nominal terms



Source: ONS Monthly Wages and Salaries Survey. Pay growth is average of published single-month estimates of year-on-year growth in pay excluding bonuses and arrears for December 2022-February 2023 (not seasonally adjusted).

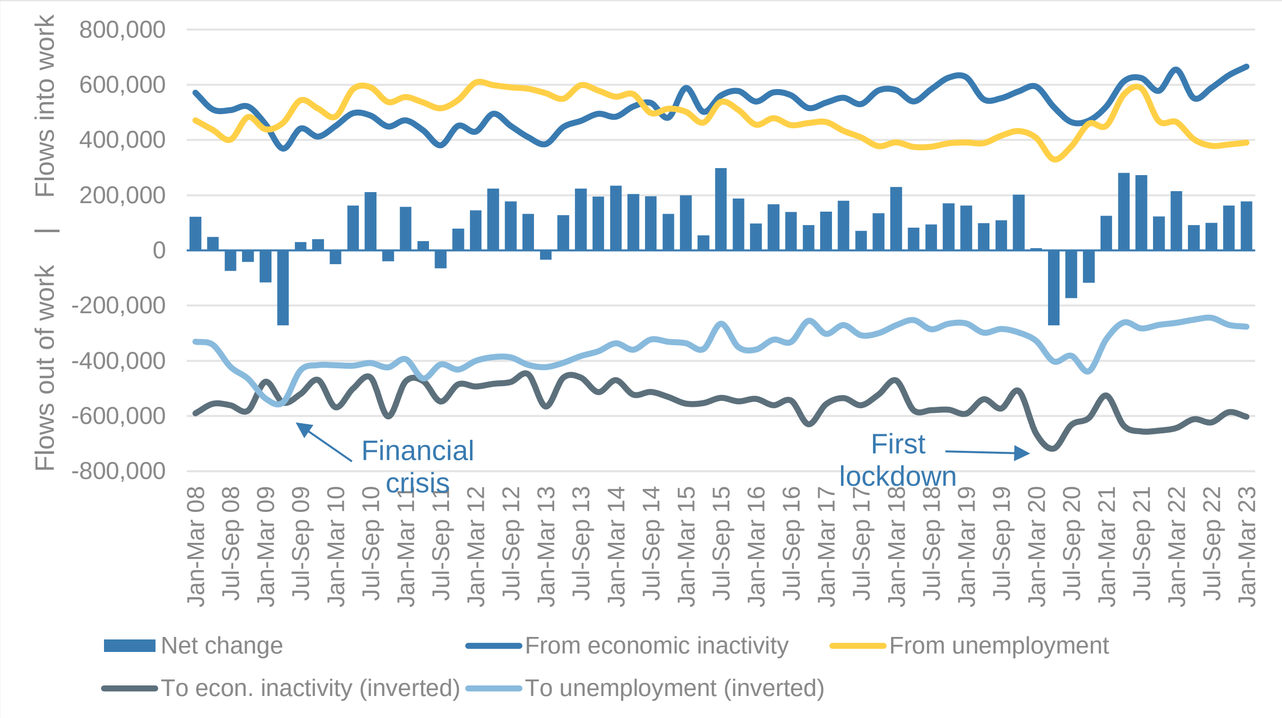
New 'flows' data shows record numbers leaving economic inactivity, while other indicators settle down

Finally, this month sees new quarterly data on the 'flows' of people between employment, unemployment and economic inactivity. The stand-out figure is that more people left economic inactivity in the most recent quarter than in any quarter in at least the last two decades (1.13 million). Most of these people moved into work (670 thousand – another record), while nearly half a million moved into unemployment (460 thousand). Given the analysis of changes in reasons for economic inactivity earlier in the briefing, it seems very likely that these huge flows were driven in particular by students entering the labour force, and by people returning to work having been out for 'other' reasons (like being financially well off enough to not have needed to work over the last couple of years).

Figure 12 below shows flows into and out of work from economic inactivity and from unemployment, and the net change from these flows. The two positive lines above the bars are flows into work, while the negative lines below the bars are flows out of work (which have been inverted). The blue bars in the middle then shows the net effect of these changes.

This illustrates in particular the strong upward trend in flows from economic inactivity (the dark blue line). However the bottom, black line – flows into economic inacitivity from work – also remains high at around 600 thousand (or at least, higher than might be expected given the tight labour market, strong earnings growth and inflationary pressures). The flows into and out of unemployment, on the other hand, now look like they are broadly back in line with pre-pandemic. This is equivalent to nearly a third (31%) of all of those who were unemployed moving into employment during the first quarter of 2023; and just under 1% of those who were employed moving into unemployment.

Figure 12: Flows into work from unemployment and economic inactivity, and flows out of work (inverted) to unemployment and economic inactivity

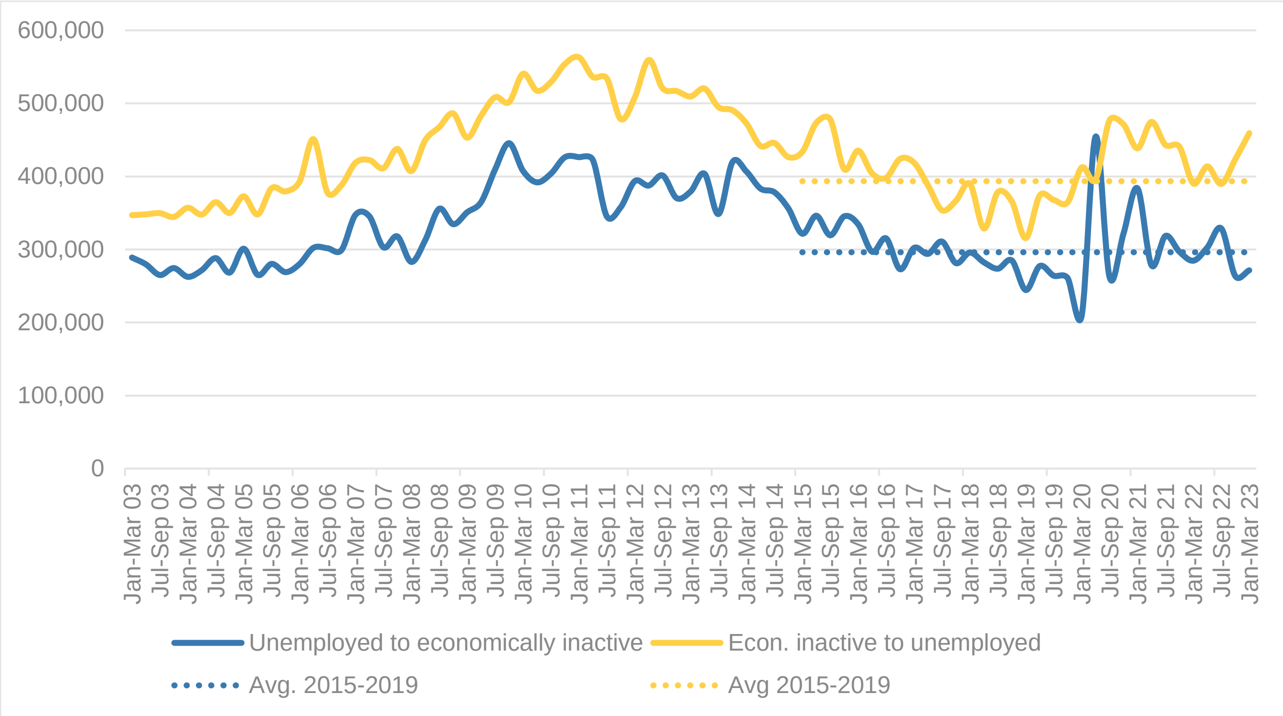


Source: Longitudinal Labour Force Survey. Note that estimates of job-to-job moves are for those aged 16-69, while estimates of job entries and exits are for those aged 16-64.

Figure 13 below then shows flows between economic inactivity and unemployment. This shows a sharp increase in people moving into unemployment – again, likely reflecting students in particular – and still relatively low numbers of people moving the other way. This reiterates that rising unemployment appears to be being driven more by people joining the labour market than it is by people leaving work. However while we would expect most of those people to then find work relatively quickly, it is not a given that this will happen – especially if there are mismatches in people's skills and where they live, or if employers are not willing or able to offer the terms that people may want or need.

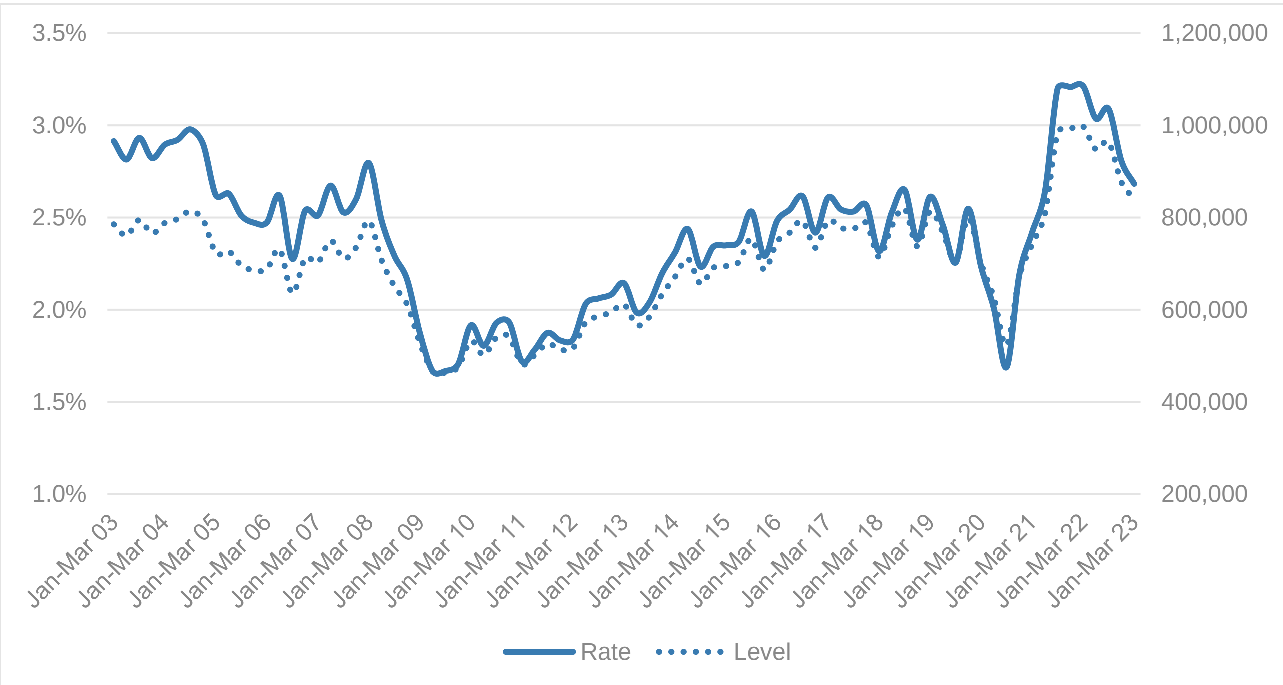
Data on job-to-job moves is then shown in Figure 14. These have fallen again this quarter, from the extremely high levels that they were at in 2022. This was undoubtedly a significant driver of higher vacancies last year, so the fact that job-to-job moves are down but vacancies remain high should give us some reassurance that demand in the labour market is holding up.

Figure 13: Number of people moving from unemployment to economic inactivity and from economic inactivity to unemployment by quarter



Source: Longitudinal Labour Force Survey.

Figure 14: Job-to-job moves by quarter – rate (proportion of all of those in work) and level



Source: Longitudinal Labour Force Survey. Estimates are for those aged 16-69.

Conclusion

All told, then, today's figures give a pretty mixed picture. Employment is edging up and economic inactivity is falling; growth in unemployment appears to be driven by more people joining the labour force rather than more leaving work; vacancies are down but remain very high, with continued demand in many higher skilled industries; and pay growth remains exceptionally strong by historic standards.

However, with worklessness due to long-term ill health rising, long-term unemployment up and widening employment 'gaps' for disabled people, older people and young people outside of full-time education, it is hard to escape the conclusion that while things may be improving for those in work or close to work, those who are more disadvantaged in the labour market appear to be being increasingly left behind. This in turn is holding back growth, but will also be undermining living standards and widening inequalities – with those out of work far more likely to be in poverty than those in work, and being hit harder by rising food prices and household bills.

We can and must do better in addressing this. For public policy, that means implementing the measures announced at the Budget at pace – and in particular, commissioning the new Universal Support programme for people with long-term health conditions; committing funding from the Shared Prosperity Fund; and improving access to employment and health related support through workplaces and health services. However as we set out at the time, the Budget measures were only a start: we need to do more and at scale, particularly to widen access to support for those not on benefits, improve partnership working across services, address skills needs and to better support employers on recruitment, job design and workplace support.

Many employers can also do more – most obviously in ensuring that their recruitment practices are open, accessible and fair; but even more importantly by looking at how they design their jobs, the flexibilities and support that they can offer, improving access to induction and work-related training, upskilling line managers and improving the quality of and access to appropriate workplace support.

About IES

The Institute for Employment studies is an independent, apolitical centre of research and consultancy in employment policy and human resource management. It works with employers, government departments, agencies and professional and employee bodies to support sustained improvements in employment policy and practice.

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